

2. (a) **Explain the difference between demand-side and supply-side economic policies.** **[10 marks]**

- explanation of demand-side policies in terms of monetary and fiscal policy
- explanation of supply-side policies in terms of particular policies, *e.g.* tax cuts, welfare cuts, privatisation, deregulation and an outward shift of the LRAS curve
- use of AD/AS diagram to illustrate the difference

Reward references to the Keynesian/Monetarist debate.

- (b) **“Higher economic growth can only be achieved through the implementation of supply-side policies.” Discuss.** **[15 marks]**

Answers may include:

- definition of economic growth
- illustration of economic growth in terms of an outward shift of the PPC/LRAS curve
- distinction between actual and potential growth
- explanation of linkages between supply side policies and growth
- importance of AD
- Reward references to the Keynesian Monetarist debate
- demand side policies and the multiplier effect
- interdependence of supply side and demand side policies

This is potentially a big question for candidates to tackle. Do not expect answers to be able to cover the greater part of the above. Good candidates should be able to show how supply side policies can increase economic growth. They also need to be able to discuss this in the context of alternative demand side policies.

Examiners should be aware that candidates may take a different approach, which if appropriate should be fully rewarded.

3. (a) **Explain why an improvement in a country’s terms of trade does not always lead to an improvement in its balance of payments on current account.** **[10 marks]**

- definition of terms of trade
- definition of current account
- explanation of improvement in terms of trade
- impact of higher export prices/lower import prices on the current account
- importance of PED

Some candidates may confuse this with the balance of trade. If so, do not automatically award zero, reward relevant material if it appears.